

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>City of Pottersville - TIFA</b>	County <b>Eaton</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>10/13/05</b>	Date Accountant Report Submitted to State: <b>10/19/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

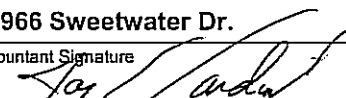
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Cardinal Tepatti &amp; Co., P.C.</b>			
Street Address <b>11966 Sweetwater Dr.</b>		City <b>Grand Ledge</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>48837</b>	Date <b>10/19/05</b>

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY

EATON COUNTY

AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005

## TABLE OF CONTENTS

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Governmental Funds:	
Governmental Fund Balance Sheet	8
Reconciliation of Balance Sheet of Governmental Funds to Statement of Net Assets	9
Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance	10
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance to Statement of Activities	11
Notes to Financial Statements	12-18
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund	19
Other Supplemental Information	
Schedule of Indebtedness	20

CARDINAL TEPATTI & Co. P.C.

11966 SWEETWATER DR.  
GRAND LEDGE, MICHIGAN 48837

JAY E. CARDINAL, CPA  
RANDALL L. TEPATTI, CPA  
STEVEN W. SHULTS, CPA  
THOMAS J. BELLGRAPH, CPA

TELEPHONE  
(517) 627-4008  
FAX (517) 627-6288

INDEPENDENT AUDITOR'S REPORT

Board of Directors  
City of Potterville  
Tax Increment Finance Authority  
Potterville, MI 48876

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Potterville Tax Increment Finance Authority, a component unit of the City of Potterville, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Potterville Tax Increment Finance Authority, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Potterville Tax Increment Finance Authority, a component unit of the City of Potterville, Michigan, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors  
City of Potterville  
Tax Increment Finance Authority

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions of the financial statements that collectively comprise the City of Potterville Tax Increment Finance Authority, a component unit of the City of Potterville, Michigan, basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Cardinal Tegaglia & Co. P.C.*

Grand Ledge, Michigan  
October 13, 2005

POTTERVILLE TAX INCREMENT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR YEAR ENDED JUNE 30, 2005

The management of the Potterville Tax Increment Authority ("the Authority") offers this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2005 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Authority's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

**Authority District**

- The assets of the Authority are lower than its liabilities at the close of this fiscal year by \$11,045, representing an improvement of \$136,250 over the previous fiscal year. The only asset that the Authority has is cash, but the liability is the full amount of the Bonds that are still owed.

**Fund Level Financial Highlights**

- As of June 30, 2005, the funds of the Authority reported combined ending fund balances of \$461,828.
- At July 1, 2004, the Authority transferred the residual equity of the Debt Service Fund and Capital Projects Fund to the General Fund. The residual equity transfer totaled \$368,638.

**Long-Term Debt**

- The Authority's total bond debt decreased by \$45,000 during the fiscal year.

**Overview of the Financial Statements**

The Authority's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements** This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the Authority's financial position. The Statement of Net Assets and the Statement of Activities are two new financial statements that report information about the Authority as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the Authority's assets and liabilities, the difference between the two being reported as the Net Assets of the Authority. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate that the bonds have been paid off and the Authority has made all of the improvements that can be made in this district and the need for a TIFA District would no longer be necessary.

The *Statement of Activities* gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the Authority that are principally supported by property taxes.

### **Focus on Funds**

Traditional users of governmental financial statements will find the fund portion of the financial statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The Authority's only major fund is the General Fund. Presentation of the major fund can be found later in this document.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Authority uses fund accounting to ensure compliance with finance-related legal requirements. We record this under one basic type of funds: governmental funds.

### ***Governmental Funds***

Governmental Funds are used to move cash to one account or another to pay for outstanding bonds and activities that relate to that checking account. More detail may be found in the Fund financial statements that follow.

### ***Capital Asset and Debt Administration***

The Authority district refinanced the 1994 Water Tower Bond of \$500,000 during the fiscal year ended June 30, 2004. We had to issue new bonds for the balance of \$400,000, saving the district close to \$30,000 of interest on the overall bond. We had the money in escrow to pay off the notes as they come due in November 2004. The 2004 Tax Increment Revenue Bond still will mature at the scheduled date of November 1<sup>st</sup>, 2015.

Major Capital asset events during FY2005 included the following:

Vermontville Highway striping \$2,419  
Millennium Digital for broadband service for the industrial park of \$2,889  
Tree grant match, replacing Ash Boar trees cut down \$5,000  
Holiday lighting on light poles \$504

### ***Long-Term Debt***

As of June 30, 2005, the Authority had total bonded debt outstanding of \$495,000. This debt will be paid back solely from money that is collected by taxes that are in this TIFA District.

#### *AUTHORITY Outstanding Debt General Obligation and Revenue Bonds As of June 30, 2005*

##### General Obligation Bonds

1988 Limited Tax Development bond	\$100,000.00
2004 Refunding water tower bond	\$395,000.00

State statutes limit the amount of general obligation debt that a governmental entity may issue to 10 percent of its total assessed valuation. The Authority is well within this limit.

More information on the Authority's long-term debt is available in the Notes to Financial Statement section of this document.

### ***Contacting the AUTHORITY Finance Department.***

This financial report is designed to provide the wide variety of users of this document with a general overview of the Authority's finances and demonstrate the Authority's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the City of Potterville, City Manager Steve Secor, 319 N. Nelson St., Potterville Michigan 48876, or call us at (517)645-7641.

The financial reports for the Tax Increment Financing Authority , a component unit of the City, can be obtained by contacting City of Potterville Tax Increment Financing Authority, 319 North Nelson, Potterville, Michigan 48876.



CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 398,433
Investments - Certificates of Deposit	74,761
Receivables (Net)	291
Deferred Debt Expense - Net	<u>26,212</u>
Total Assets	\$ <u>499,697</u>
<b>LIABILITIES</b>	
Accrued Interest Payable	\$ 4,376
Due to Primary Government	11,366
Long-Term Liabilities	
Bonds Payable - Due Within One Year	50,000
Bonds Payable - Due After One Year	<u>445,000</u>
Total Liabilities	\$ <u>510,742</u>
<b>NET ASSETS (DEFICIT)</b>	
Unrestricted	\$ <u>(11,045)</u>
Total Net Assets	\$ <u><u>(11,045)</u></u>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF POTTERVILLE**  
**TAX INCREMENT FINANCE AUTHORITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions
Governmental Activities:				
Public Works	\$ 28,467	\$	1,923	\$ (26,544)
Interest on LongTerm Debt	22,683			(22,683)
Total Governmental Activities	\$ 51,150	\$ -0-	\$ 1,923	\$ (49,227)
General Revenues:				
Property Taxes				185,477
Change in Net Assets				\$ 136,250
Net Assets (Deficit) - Beginning of Year				(147,295)
Net Assets (Deficit) - End of Year				\$ (11,045)

The notes are an integral part of the statements.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
GOVERNMENTAL FUND BALANCE SHEET  
JUNE 30, 2005

	General Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>
ASSETS		
Cash	\$ 398,433	\$ 398,433
Investments - Certificates of Deposit	<u>74,761</u>	<u>74,761</u>
Total Assets	\$ <u>473,194</u>	\$ <u>473,194</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Due To Primary Government	\$ <u>11,366</u>	\$ <u>11,366</u>
Total Liabilities	\$ <u>11,366</u>	\$ <u>11,366</u>
Fund Balances:		
Reserved	\$ -0-	\$ -0-
Unreserved	<u>461,828</u>	<u>461,828</u>
Total Fund Balance	\$ <u>461,828</u>	\$ <u>461,828</u>
Total Liabilities and Fund Equity	\$ <u>473,194</u>	\$ <u>473,194</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
GOVERNMENTAL FUNDS  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO STATEMENT OF NET ASSETS  
June 30, 2005

Total Fund Balance - Total Governmental Funds	\$ 461,828
Amounts reported for governmental activities in the statement of net assets are different because:	
Accounts receivable are not available to pay current-period expenditures and, therefore, not reported in the funds.	291
Long-term liabilities of (\$495,000) are not due and payable in the current period and are not reported in the funds. Other related amounts include deferred debt expense of \$26,212 and bond interest payable of (\$4,376).	<u>(473,164)</u>
Net Assets of Governmental Activities	\$ <u><u>(11,045)</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	Capital Projects	Debt Service	Total Governmental Funds
REVENUES				
Taxes	\$ 185,477	\$	\$	\$ 185,477
Interest	2,038			2,038
Total Revenues	\$ 187,515	\$ -0-	\$ -0-	\$ 187,515
EXPENDITURES				
Current:				
Public Works	\$ 26,084	\$	\$	\$ 26,084
Debt Service	68,241			68,241
Total Expenditures	\$ 94,325	\$ -0-	\$ -0-	\$ 94,325
Excess of Revenues Over (Under) Expenditures	\$ 93,190	\$ -0-	\$ -0-	\$ 93,190
Fund Balances - July 1, 2004	-0-	339,076	29,562	368,638
Residual Equity Transfers	368,638	(339,076)	(29,562)	-0-
Fund Balances - June 30, 2005	\$ 461,828	\$ -0-	\$ -0-	\$ 461,828

The Notes to Financial Statements are an integral part of this statement.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE TO STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net Change in Fund Balance - Total Governmental Funds	\$ 93,190
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(115)
Repayment of bond principal of \$45,000 is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).	45,000
Some expenses reported on the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.	
Amortization of deferred debt expense	(2,383)
Change in accrued interest on bonds	558
	<hr/>
Change in Net Assets of Governmental Activities	\$ <u>136,250</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Potterville, established the City of Potterville Tax Increment Finance Authority (Authority) on July 11, 1984, as authorized pursuant to P.A. 450 of 1980, as amended. The Authority was established for the purpose of promoting growth and development, and for other purposes as set forth in P.A. 450 of 1980, as amended.

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies:

The Reporting Entity

The financial statements of the City of Potterville Tax Increment Finance Authority, a component unit of the City of Potterville, Michigan present only the funds and account groups of the Authority and are not intended to present fairly the financial position and results of operations of the City of Potterville, Michigan, in conformity with generally accepted accounting principles.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Authority as a whole excluding fiduciary activities. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, generally financed in whole or in part with fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Fund Financial Statements

The Authority segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental activities. These statements present each major fund as a separate column on the fund financial statements.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses, and balance of current resources. The Authority has presented the following major governmental funds:

Debt Service Fund - Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs.

Capital Project Funds - These funds are used to account for financial resources to be used for the acquisition of and construction of major capital facilities (other than those financed by proprietary funds).

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they were levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.



CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity date within three months or less when acquired.

Receivables and payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond issuance costs, bond premiums and discounts, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issues are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONT'D

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budget Policies

The board of directors of the Authority resolved to transfer the residual equity as of June 30, 2004 from the debt service fund and capital projects fund to the general fund.

The Authority adopted an annual budget for the general fund on a basis consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at fiscal year end.

Fund Deficits - The Authority had no accumulated fund balance deficits.

NOTE 3 - CASH

Michigan Compiled Laws, section 129.91, authorizes the Authority to make deposits and invest in the accounts of the federally insured banks, credit unions, and savings and loan associations which have offices in Michigan. The Authority is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DEPOSITS AND INVESTMENTS

The Authority Board has designated one bank for deposit of Authority funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in bank accounts and CDs, but not the remainder of State statutory Authority as listed above.

The Authority's deposits and investment policy are in accordance with statutory Authority.

The breakdown between deposits and investments is as follows:

Bank Deposits - Checking	\$ 398,523
Investments - Certificates of Deposit - Matures 10/22/05	<u>74,761</u>
Total	\$ <u>473,284</u>

Custodial Credit Risks Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be covered. Neither the state nor the Authority has a deposit policy for custodial credit risk. As of June 30, 2005, \$373,264 of the Authority's bank balances and investments in certificates of deposit were uninsured and exposed to custodial credit risk.

Investments are categorized into the three categories of credit risk:

1. Insured of registered, or securities held by the Authority or its agent in the Authority's name;
2. Uninsured and unregistered, with securities held by the counterparty's trust department of agent in the Authority's name; and
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

Based on these three levels of risk, all the Authority's investments are classified as Category 1.

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Due To/From Primary Government	and Component Unit	
City of Potterville	Authority	<u>\$11,366</u>

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CHANGES IN GENERAL LONG-TERM DEBT ACCOUNT GROUP

During the year ended June 30, 2004, the Authority issued \$400,000 in general obligation bonds with an average interest rate of 3.21%. The net proceeds of these bonds were used to advance refund \$350,000 of outstanding 1994 general obligation bonds with an average interest rate of 6.97%. The net proceeds of \$367,400 (after \$32,600 in underwriting fees, insurance, and other issuance costs) were used to purchase a SLG certificate. This certificate was deposited in an irrevocable trust with an escrow agent to provide for the debt service payment of the original bond in November 2004. As a result, the bonds are considered to be defeased and the liability for the bonds have been removed from the General Long-Term Debt Account Group.

The following is a summary of notes payable, capital lease obligations, land contracts, and general obligation bond transactions of the Authority for the year ended June 30, 2005:

	Balance 07/01/04	Additions	Deletions	Balance 06/30/05
General Obligation Bonds	\$400,000	\$ -0-	\$ 5,000	\$395,000
General Obligation Bonds	20,000	-0-	20,000	-0-
General Obligation Bonds	<u>120,000</u>	<u>-0-</u>	<u>20,000</u>	<u>100,000</u>
Total	<u>\$540,000</u>	<u>\$ -0-</u>	<u>\$ 45,000</u>	<u>\$495,000</u>

The General long-term debt as of June 30, 2005, is as follows:

\$270,000, 1988 Series, Limited Tax Development Bonds, due in annual installments at 8.5 - 9.0% interest	\$100,000
\$500,000, 1994 Series, Tax Increment Revenue Bonds, due in annual installments at 4.6 - 7.125% interest	-0-
\$400,000, 2004 Series, Tax Increment Revenue Bonds, due in annual installments at 2.0 - 4.0% interest	<u>395,000</u>
Total	<u>\$495,000</u>

The annual principal and interest requirements to amortize notes payable, capital lease obligations, land contracts, and general obligation bonds as of June 30, 2005, is as follows:

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CHANGES IN GENERAL LONG-TERM DEBT ACCOUNT GROUP - CONT'D

General Obligation Bonds

<u>Year Ended</u> <u>June 30</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 70,555	\$ 50,000	\$ 20,555
2007	77,880	60,000	17,880
2008	69,943	55,000	14,943
2009	71,725	60,000	11,725
2010	44,445	35,000	9,445
2011-2016	<u>263,660</u>	<u>235,000</u>	<u>28,660</u>
Total	<u>\$ 598,208</u>	<u>\$495,000</u>	<u>\$ 103,208</u>

NOTE 6 - TAXES AND SPECIAL ASSESSMENTS

The City of Potterville - Authority is supported by taxes captured within the Authority district. The current state equalized value and taxable value of properties within the Authority district total \$3,662,612. These captured taxes will generate approximately \$185,000 for the Authority operations and debt retirement.

NOTE 7 - RISK FINANCING

The Authority is exposed to various risks of loss related to theft of, damage to, and distribution of assets; errors and omissions; and injuries to employees. The Authority participates in the Michigan Municipal Liability and Property Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, building and contents) and workers' compensation. Settlement amounts have not exceeded insurance coverage for the current or three prior years.

The local units in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property Pool (Pool) pursuant to the provisions of Act 138 of the Michigan Public Acts of 1982. The Pool is to provide for joint and cooperative action relative to Members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities with the state.

The Michigan Municipal Liability and Property Pool program operates as a common risk-sharing management program for local units in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
REVENUES				
Taxes	\$ 178,763	\$ 178,763	\$ 185,477	\$ 6,714
Interest	<u>1,000</u>	<u>1,000</u>	<u>2,038</u>	<u>1,038</u>
Total Revenues	\$ <u>179,763</u>	\$ <u>179,763</u>	\$ <u>187,515</u>	\$ <u>7,752</u>
EXPENDITURES				
Current				
Public Works	\$ 290,400	\$ 290,400	\$ 26,084	\$ 264,316
Debt Service	<u>69,656</u>	<u>69,656</u>	<u>68,241</u>	<u>1,415</u>
Total Expenditures	\$ <u>360,056</u>	\$ <u>360,056</u>	\$ <u>94,325</u>	\$ <u>265,731</u>
Net Change in Fund Balance	\$ (180,293)	\$ (180,293)	\$ 93,190	\$ 273,483
Fund Balance - Beginning	-0-	-0-	-0-	-0-
Redidual Equity Transfer	<u>377,855</u>	<u>377,855</u>	<u>368,638</u>	<u>(9,217)</u>
Fund Balance - Ending	\$ <u><u>197,562</u></u>	\$ <u><u>197,562</u></u>	\$ <u><u>461,828</u></u>	\$ <u><u>264,266</u></u>

**CITY OF POTTERVILLE  
TAX INCREMENT FINANCE AUTHORITY  
SCHEDULE OF INDEBTEDNESS  
JUNE 30, 2005**

	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Maturity Amounts</u>	<u>Outstanding at 6/30/05</u>
<u>1988 Limited Tax Development Bonds</u>	7/1/1988	\$ 270,000	9.00	10/1/2005	1 \$ 20,000	\$ 20,000
Subject to early redemption at			9.00	10/1/06-07	2 25,000	50,000
prices specified on the faces of			9.00	10/1/2008	1 30,000	30,000
the bonds						<u>\$ 100,000</u>
 <u>2004 Tax Increment Revenue Bonds</u>	 5/13/2004	 \$ 400,000	 2.00	 11/1/2005	 1 \$ 30,000	 \$ 30,000
Subject to early redemption at			2.00	11/1/2006	1 35,000	35,000
prices specified on the face of			2.25	11/1/2007	1 30,000	30,000
the bonds			2.70	11/1/2008	1 30,000	30,000
			3.00	11/1/2009	1 35,000	35,000
			3.20	11/1/2010	1 35,000	35,000
			3.50	11/1/2011	1 40,000	40,000
			4.00	11/1/2012	1 35,000	35,000
			4.00	11/1/2013	1 40,000	40,000
			4.00	11/1/2014	1 40,000	40,000
			4.00	11/1/2015	1 45,000	45,000
						<u>\$ 395,000</u>